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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item 16 I. D. # 4983

ENERGY DIVISION **RESOLUTION E-3871**

October 27, 2005

R E S O L U T I O N

Resolution E-3871. San Diego Gas & Electric Company (SDG&E) requests approval of its Distribution Performance-Based Ratemaking (PBR) revenue sharing and quality of service performance results for the year 2003. SDG&E's request is approved.

By Advice Letter 1583-E/1444-G filed on April 1, 2004 and Advice Letter 1583-E-A/1444-G-A filed on April 29, 2005.

SUMMARY

San Diego Gas & Electric Company (SDG&E) filed Advice Letter (AL) 1583-E /1444-G requesting approval of its Distribution Performance-Based Ratemaking (PBR) revenue sharing and quality of service performance results for the year 2003. SDG&E reported that there were no sharable earnings on its financial performance because SDG&E's actual earned rate of return (ROR) was below the authorized ROR. However, SDG&E reports that based on the various quality of service indicators specified in the PBR, it should receive a net shareholder reward of $8.25 million.

This Resolution approves SDG&E's request with modifications**.** Major elements of the resolution are summarized below.

1. Ratepayers do not have any sharable earnings for the year 2003 because SDG&E's actual earned ROR of 6.45% was below the authorized ROR of 8.77%.

2. SDG&E requests a net shareholder reward of $8.25 million for its 2003 performance under the PBR's Employee Safety, Customer Satisfaction, Call Center Responsiveness and Electric System Reliability indicators.

3. SDG&E filed AL 1583-E-A/1444-G-A to correct the safety incentive result reported in AL 1582-E/1444-G. The minor correction had no impact on SDG&E's safety reward.

4. This resolution approves $8.25 million reward for SDG&E in the above listed performance areas subject to refund in the event that the current investigation by the Commission's Consumer Protection and Safety Division (CPSD) concludes that a broader investigation of service quality PBRs including SDG&E 's PBR is warranted.

5. SDG&E is authorized to record the rewards amounts in its electric and gas Rewards and Penalties Balancing Accounts.

SDG&E's supplemental AL 1583-E-A/1444-G-A revised the Employee Safety results reported in AL 1583-E/1444-G, but the minor correction had no impact on SDG&E's safety reward.

BACKGROUND

The Commission instituted a PBR mechanism for SDG&Es electric distribution, and gas distribution and transmission operations in Decision (D.) 99-05-030.

In D. 99-05-030, the Commission established a PBR mechanism for SDG&E which was to use as its starting point, the revenue requirement authorized in D. 98-12-038) – SDG&E's 1999 cost of service decision. The PBR mechanism included a revenue sharing formula within some specified bands. The revenue sharing bands and percentages are summarized in Table 1.

Table 1
SDG&E PBR Revenue Sharing Bands

Bands	Basis Points	Shareholder %	Ratepayer %
Actual ROR below authorized - no sharing			
Inner Actual ROR up to 25 basis points above authorized – no sharing	00-25	100%	00%
1	25-75	25%	75%
2	75-100	35%	65%
3	100-125	45%	55%

4	125-150	55%	45%
5	150-175	65%	35%
6	175-200	75%	25%
7	200-250	85%	15%
8	250-300	95%	05%
Outer	300-above	100%	00%

D.99-05-030 also sets forth performance benchmarks related to SDG&E's quality of service in the following areas: employee safety, customer satisfaction, call center responsiveness, and electric reliability. Financial rewards and penalties apply in the event that SDG&E exceeds or does not meet these performance benchmarks.

Additionally, D. 99-05-030 required SDG&E to adjust its electric distribution and natural gas transportation rates annually in years subsequent to 1999 using an established PBR rate indexing formula.

D.99-05-030 ordered SDG&E to file an annual report providing a summary of its PBR performance for each prior calendar year. In compliance with that order, SDG&E filed its report on its PBR financial performance and rewards/penalties for specified service quality indicators in AL 1583-E/1444-G on April 1, 2004 . Based on further review of its 2003 safety statistics, SDG&E filed AL1583-E-A/1444-G-A on April 29, 2005 to report slightly revised safety incentive results. The revised results did not impact the magnitude of SDG&E's requested PBR reward.

For 2003 an authorized ROR of 8.77% was in effect for SDG&E, approved by the Commission in D.02-11-027.

The Commission adopted a new base rate PBR for SDG&E in D.05-03-023, effective in 2005.

SDG&E filed AL 1583-E-A/1444-G-A to correct the safety incentive result reported in AL 1583-E/1444-G. Based on further review of 2003 safety statistics, SDG&E found that the incident rate for 2003 is 5.42 incidents per 200,000 work hours as compared to 5.21 incidents per 200,000 work hours as originally reported in AL 1583-E/1444-G. The change in the incident rate is primarily a result of recording OSHA recordable incidents in 2004 that occurred in 2003. Therefore, as reflected in Attachment A, SDG&E revised its 2003 PBR safety result to reflect these additional incidents that were recorded in 2004 and revised the 2003 OSHA incident rate to 5.42. However, despite the revised incident rate, the PBR incentive reward for employee safety remains $3 million, as originally filed in AL 1583-E/1444-G.

Southern California Edison Employee Misconduct Under Investigation

Southern California Edison Company (Edison) also operated under a base rate PBR, approved by the Commission in D.96-09-092. Like the SDG&E PBR, the Edison PBR included quality of service incentives. The Edison quality of service incentives were related to customer satisfaction, employee health and safety, and electric reliability.

Southern California Edison has found widespread misconduct by its own employees in the collection and reporting of customer satisfaction data. In 2003, Edison management received two anonymous letters that charged that Edison employees had deliberately altered information in order to affect the results of customer satisfaction surveys that are ultimately used to determine the shareholder rewards or penalties under the customer satisfaction indicator. Edison subsequently conducted a self-directed investigation that confirmed the allegations. In its investigation report provided to the Commission, Edison acknowledged that deliberate misconduct had in fact occurred, was widespread, and included planners as well as some supervisors. Edison found that the misconduct "was the result of an overstated emphasis on achieving positive survey findings within an organization that was severely stressed due to workload, attrition and limited job experience." Some of the techniques used to alter the data could be quantified, but many could not. Edison found that "at least 36 Design Organization personnel engaged in deliberate misconduct…" and "it is probable that other Design employees also acted in this manner…" Edison uncovered a variety of different methods used to manipulate the data.

In some cases, supervisors participated in the alteration of customer information or advised planners in methods of manipulating data. Others knew that such conduct was occurring but did not take steps to stop it. At more senior management levels, an atmosphere was created in which planners were placed under great pressure to achieve high survey results in the absence of a corresponding effort to protect against unacceptable responses to that pressure.

Edison said that the effect of this misconduct on the customer satisfaction survey and, in turn, Edison's, PBR revenue, is likely to have been minimal. From 1999 to 2003, Edison said it provided almost 400,000 customer transactions to the survey company, Maritz Research, which surveyed less than 7,000. Edison identified only 9 cases in which Maritz identified a false customer.

Nine employees were terminated for falsification of data, and one management employee has been suspended without pay, demoted and removed from a supervisory role. Six others have been suspended for one to four weeks. Eleven received letters of reprimand, and five were given oral counseling.

Edison said it plans to refund and forego $14.4 million in PBR rewards that can be fairly attributed to Design's portion of customer satisfaction results for the entire term of PBR.

Edison then conducted an investigation into the methods used to collect information related to its employee health and safety indicator. As a result of this investigation Edison concluded that, for a variety of reasons, the injury and illness data provided to the Commission were unreliable. Based on its findings, the Company has voluntarily offered to refund to ratepayers the $20 million in PBR awards that it already received, and to withdraw its requests for $15 million in PBR awards based on employee illness and injury recordkeeping. In addition Edison proposes to defer the effective date of its new safety incentive measure adopted in its 2003 General Rate Case until 2005, so that it may correct and validate its baseline data regarding Occupational Safety and Health Administration (OSHA) recordables and improve its OSHA recordkeeping processes.

Edison found that there were some deliberate attempts by supervisory and line employees to avoid reporting certain injuries, and Edison bonus programs (which were designed to encourage employees to work safely) at times discouraged injury reporting by a workforce that was traditionally inclined to "tough it out" and work through a certain amount of physical discomfort in order to keep the lights on.

Finally, Edison investigated the organizations involved in the process of

capturing outage data used for reporting system reliability information for the electric reliability indicator.

Edison found no evidence of misconduct in the process of outage data collection and recording and regards its reported Average Customer Minutes of Interruption (ACMI) and Frequency numbers to be uncompromised by significant operational errors.

The Commission's Consumer Protection and Safety Division (CPSD) is conducting its own investigation of Edison's reporting of its PBR incentive data.

The investigation is not concluded yet.

NOTICE

Notice of SDG&E AL 1583-E/1444-G was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

No protests were filed against SDG&E AL 1583-E/1444-G.

DISCUSSION

Revenue Sharing:

The Energy Division has reviewed SDG&E's results of operations for 2003 for revenue sharing calculations, and concurs that no revenue sharing results from SDG&E's 2003 financial performance.

As described in Table 1 on p 2, SDG&E's base rate PBR mechanism incorporates a revenue sharing structure that allocates net operating income (NOI) in excess of its authorized ROR, between shareholders and ratepayers. The excess NOI associated with the combined electric distribution and gas transportation departments is allocated according to a set of sharing tiers. The sharing structure provides that shareholders will receive all gains if actual ROR is up to 25 basis points above the authorized ROR. Between 25 and 300 basis points above the authorized ROR, the shareholder portion of gains rises continuously from 25% through 100% while the ratepayer share correspondingly declines from 75% to zero. Shareholders receive all gains if the actual ROR is 300 basis points or more above the benchmark and remain responsible for all "losses" below the benchmark ROR. Thus, under this PBR mechanism, ratepayers are not at risk for the lower utility ROR, but may share some of the gains if the actual ROR is more than 25 basis points above authorized.

SDG&E's actual ROR for its combined electric distribution and natural gas transportation operations was 6.45% in 2003, well below SDG&E's authorized ROR of 8.77%. So there are no sharable earnings for 2003.

SDG&E's explanation of the low actual ROR

SDG&E explained the reasons for its low ROR in its advice letter and in response to Energy Division data requests.

Gas revenue increase did not keep pace with increases in gas department operating expenses and rate base. SDG&E's 2003 gas department operating expenses were $21.6 million higher in 2003 than in 2002, a 12.7% increase. Gas revenues increased by only $17.6 million in 2003, an increase of 8.8%. The higher operating expenses and relatively moderate revenue increase, combined with a $7.4 million increase in gas rate base, resulted in a decline in the gas department actual ROR from 5.33% to only 3.93%.

There was a substantial increase in electric rate base. The electric department's total operating expenses increased by $71 million, or 17%, in 2003 and rate base increased by $108.3 million.

Administrative and general expenses are higher. SDG&E's gas transportation revenue has been flat since 1999. The main contributor to the decline in the gas ROR is an increase in administrative and general expenses (A&G). SDG&E said that A&G expenses for both electric and gas increased due to higher employee salaries and benefits, higher costs of liability insurance premiums, reduced pension credits and higher costs to comply with stricter financial reporting regulations.

Electric rate base and expenses have increased. SDG&E's significant increase in electric rate base distribution since 1999 was primarily due to additions to underground conductors, underground conduit and substation equipment. Information technology and telecommunications assets were transferred to SDG&E from the parent company during 2002 due to utility integration. Since SDG&E, SoCalGas and other Sempra affiliates share these assets, SDG&E charges a portion of the costs associated with those assets (depreciation, taxes and return) to those entities and payments from those entities received by SDG&E are recorded as miscellaneous revenues in 2003.

Electric distribution operation and maintenance expenses have increased since 1999 due to the non-capital costs incurred to maintain and upgrade the aging utility infrastructure. Significant plant additions resulted in an increase in depreciation expense.

SDG&E Received More Revenues from Shared Assets

Increases in electric revenues in 2003 were due in large part to revenue received for "shared assets" transferred to SDG&E due to utility integration and increased revenue received from the San Diego franchise fee surcharge and government energy retrofit programs. In the case of shared assets, the recorded revenue is offset by an increase in electric distribution rate base and depreciation expenses. Revenue from the San Diego franchise fee surcharge is offset by franchise fee expense. Additional operating expenses offset revenue from government energy retrofit programs.

Ratepayers do not share SDG&E "Losses" below authorized ROR.

The decline in SDG&E's ROR reversed to a slight increase in 2003 to 6.45% from the reported 6.22% in 2002. SDG&E shareholders are at risk for all "losses", i.e. recorded NOI associated with an actual ROR that is below the authorized ROR.

In summary, SDG&E's ratepayers did not benefit from any revenue sharing results in 2003; on the other hand ratepayers did not share in any loss associated with SDG&E's poor financial performance.

Service Quality Penalties/Rewards

SDG&E ratepayers have seen overall service quality improvements in certain areas in 2003, but will pay $8,250,000 in 2003 to SDG&E shareholders for those improvements.

SDG&E reports that it is eligible to receive a total 2003 net reward of $8.25 million under its service quality penalties/reward PBR.

Table 2 on the next page shows a breakdown of service quality rewards and penalties.

Table 2
SDG&E PBR 2003 Quality of Service Rewards and Penalties

ELECTRIC DEPARTMENT	
Performance Rewards/(Penalties)	
Employee safety	$2,190,000
Customer Satisfaction	492,750
System Reliability[1]	
SAIDI	(785,000)
SAIFI	3,750,000
MAIFI	1,000,000
Call Center Responsiveness	445,300
Total Electric Department	7,093,050
GAS DEPARTMENT	
Performance Rewards	
Employee safety	$ 810,000
Customer Satisfaction	182,250
Call Center Responsiveness	164,700
Total Gas Department	1,156,950
Total Net Performance Rewards	**$8,250,000**

SDG&E reports that it is eligible for the maximum allowable reward of $3 million for its 2003 performance under its employee safety indicator.

The SDG&E Employee Safety indicator is based on the frequency of recordable Federal Occupational Safety and Health Administration (OSHA) incidents.

[1] The above acronyms are defined as follows: SAIDI is the System Average Interruption Duration Index, SAIFI is the System Average Interruption Frequency Index and MAIFI is the Momentary Average Interruption Frequency Index.

SDG&E calculates the OSHA frequency standard by multiplying the number of recordable incidents by 200,000 (100 employees at 2,000 hours/year) and dividing this figure by the total utility non-generation working hours during the calendar year.

The benchmark for SDG&E employee safety is set at an OSHA frequency of 8.80, with a deadband of plus or minus 0.2. For each hundredth of a point SDG&E scores above or below the deadband, it is penalized/rewarded $25,000, up to a maximum of $3,000,000.

SDG&E reports that in 2003, it experienced 231 recordable incidents, resulting in an OSHA frequency of 5.42 and a maximum reward of $3,000,000. In AL 1583-E-A/1444-G-A SDG&E reported revised total lost time and non-lost time incidents of 231 resulting in total OSHA frequency of 5.42. SDG&E's revision resulted from including OSHA recordable incidents in 2004 that related to incidents that occurred in 2003. This revision resulted from incidents that occurred in 2003, but were recorded on the OSHA log after the end of 2003. The revised frequency results in no change in SDG&E's safety performance reward.

The Energy Division believes that SDG&E calculated its OSHA frequency for 2003 and the maximum reward of $3,000,000 correctly.

SDG&E allocates 73% of its 2003 employee Safety performance reward to the electric distribution department and 27% of this reward to the gas department.

SDG&E reports that it is eligible for a reward of $675,000 for its 2003 performance under its customer satisfaction indicator.

SDG&E's Customer Satisfaction indicator is based on the results of a survey of customers who received some type of customer service from SDG&E in the calendar year. This internally generated telephone survey is known as the Customer Service Monitoring System (CSMS). SDG&E conducts interviews with a sample of customers receiving a particular type of service over a certain year, and assesses customer satisfaction in five service areas: Branch Offices, Call Center, Gas Appliance Services, Service Order and Troubleshooters.

The Customer Satisfaction benchmark of surveyed customers indicating a "very satisfied" response is set at 92.5%, accompanied by a deadband of plus or minus

0.5%. For each tenth of a percentage SDG&E scores above or below the deadband, it is penalized/rewarded $75,000, up to a maximum of $1,500,000.

SDG&E reports that 93.9% of the customers that participated in its customer survey were "very satisfied" with SDG&E's service in 2003. This result represents a slight improvement over the 92.8% result in 2002. SDG&E's customer satisfaction performance figures in 2003 result in a reward of $675,000. An audit completed by Armando, Martinez & Company found that the 2003 CSMS results are unbiased and valid.

SDG&E's service order performance improved slightly to a 2003 average of 85.3% customers surveyed that were very satisfied from the 84.4% for 2002 and the 82.6% for 2001. However, continued improvement is needed in this area.

After reviewing SDG&E's 2003 Customer Satisfaction service performance, the Energy Division agrees with SDG&E's calculation of a $675,000 reward.

SDG&E reports that a reward of $610,000 is due to it under its Call Center Responsiveness indicator.

The Call Center Responsiveness benchmark in SDG&E's PBR mechanism is set at answering 80% of calls from customers within 60 seconds on a 24-hour average annual basis. There is no performance deadband associated with this benchmark. A $10,000 reward/penalty amount is assigned to each 0.1 unit change from the benchmark, with a maximum reward/penalty of $1,500,000.

SDG&E received roughly 2.9 million calls in 2003 and accepted 86.1% of these calls within 60 seconds in 2003. This performance represents a slight decline from the 2002 responsiveness of 86.9%. Under the PBR, SDG&E earned a reward of $610,000 in 2003.

Successful Call Center responses include both personal and electronic responses to inquiries by either Customer Service Representatives responses or Interactive Voice responses. SDG&E allocates 73% of the Call Center Responsiveness reward to the electric distribution department and 27% of the reward to the gas department.

The Energy Division agrees with the reward calculations for 2003.

Electric System Reliability

SDG&E's Electric system Reliability performance is judged against three reliability indicators: the System Average Interruption Duration Index (SAIDI), the System Average Interruption Frequency Index (SAIFI), and the Momentary Average Interruption Frequency Index (MAIFI).

SDG&E excludes planned outages and major events when reporting its performance under these three Electric System Reliability indicators. A major event is defined in D.96-09-045 as an event that meets at least one of the following criteria: a) it is caused by an earthquake, fire, or storm of sufficient intensity to give rise to a state of emergency being declared by the government, or b) it affects more than 15% of the system facilities or 10% of the utility's customers, whichever is less for each event. SDG&E cited two major events, a winter storm in January 2003 and a firestorm in October-November 2003 and excluded the impact of these events from the calculations of its electric reliability performance indicators.

SDG&E also excludes events that are the direct result of failures in the ISO controlled bulk power market or other non-SDG&E owned transmission facilities.

SDG&E reports a net penalty of $785,000 under its System Average Interruption Duration Index indicator.

SAIDI measures the average electric service interruption duration per customer served per year. In 2003, the SAIDI benchmark in the SDG&E base rate PBR was 73.00 minutes. A $250,000 reward/penalty amount is assigned to each minute change from the benchmark, with a maximum reward/penalty of $3,750,000. SDG&E's actual SAIDI result in 2003 was 76.14 minutes, a slight improvement over the 77.19 minutes of 2002. SDG&E's performance results in a penalty of $785,000.

In its 2003 PBR report, SDG&E notes that the major contributors to SAIDI outage minutes were underground cable failures, private equipment and vehicle contacts, distribution substation outages, and underground equipment failures, collectively accounting for 71% of the SAIDI minutes.

After reviewing SDG&E's 2003 SAIDI performance data, the Energy Division agrees with the penalty calculation of $785,000 for 2003.

SDG&E reports that it is eligible for the maximum allowable reward of $3.75 million under its System Average Interruption Frequency Index indicator.

SAIFI measures the average frequency of electric distribution forced outages, sustained for 5 minutes or more, on an annual basis. The benchmark SAIFI in SDG&E's base rate PBR is 0.90 outages per year, with no corresponding deadband. A $250,000 reward/penalty amount is assigned to each 0.01 unit change from the benchmark, with a maximum reward/penalty of $3,750,000.

For 2003 SDG&E reported a SAIFI measurement of 0.717 outages, an improvement over the 0.806 reported for 2002. The resulting reward is the maximum of $3,750,000.

SDG&E notes that the major contributors to SAIFI outages in 2003 were underground cable failures, distribution substation outages, private equipment and vehicle contacts, overheads equipment failures, and underground equipment failures. SDG&E said that these factors collectively caused 68% of the SAIFI outages.

After reviewing SDG&E's 2003 SAIFI performance data, the Energy Division agrees with the reward calculations of $3,750,000.

SDG&E reports that it is eligible for the maximum allowable reward under its Momentary Average Interruption Frequency Index indicator.

MAIFI measures the average electric service momentary interruption frequency per customer served per year for outages less than 5 minutes in length. The MAIFI benchmark is 1.28 outages per year, with no associated deadband. A $50,000 reward/penalty amount is assigned to each 0.015 unit change from the benchmark, with a maximum reward/penalty of $1,000,000.

In 2003, SDG&E reported a MAIFI measurement of 0.845 outages, close to the 0.864 reported for 2002. The resulting reward is the maximum of $1,000,000.

In its 2003 PBR report SDG&E notes that the major contributors to MAIFI outages were line recloser[2] operations, transmission-related outages and undetermined outages that collectively cause 75% of the MAIFI outages.

After reviewing SDG&E's 2003 MAIFI performance data, the Energy Division agrees with the reward calculations of $1,000,000 for each year.

Recording of the net rewards in SDG&E's gas and electric Rewards and Penalties Balancing accounts.

SDG&E is authorized to record the electric and gas net performance rewards in its electric and gas Rewards and Penalties Balancing Accounts (RPBA).

In AL 1583-E-A/1444-G-A, SDG&E requested an effective date of June 30, 2005. This advice letter will be effective today.

SDG&E's PBR Rewards and Penalties Are Subject to Refund and Adjustment

At this time, the Commission has no information that SDG&E employees or management participated in misconduct in relation to its PBR data collection or in the reporting of its results, and we have no reason to believe that its PBR rewards aren't accurate and honestly earned. The Energy Division obtained some information regarding the data collecting and reporting controls in place at SDG&E related to its customer satisfaction indicator.

In addition, upon learning of reports of Edison misconduct, in 2004 SDG&E conducted its own internal audit of its procedures and data reporting related to its customer satisfaction and safety indicators. SDG&E has agreed to waive confidentiality on these two audit reports. With regard to its customer satisfaction indicator, SDG&E "did not detect any instances where survey contacts were manipulated" and found "no indication of contact data manipulation". With regard to the safety performance indicator, SDG&E again found no evidence of manipulation. SDG&E did discover some very minor

[2] A recloser opens a circuit in the event of a fault on the line. After a brief duration the recloser automatically closes the circuit. If the fault is still present, the recloser opens the circuit again and remains open until the circuit can be checked.

instances of inaccurate reporting of safety events. These instances were so small that they did not result in any change to the PBR performance reward. SDG&E's safety audit found that SDG&E "has good management controls in place for managing employee injuries involving doctor visits, and for classifying, recording, and reporting OSHA recordable injuries." The audit also states that "existing controls in place at [Disability Management Services] and Safety Services are adequate and functioning as intended to provide a reasonable assurance as to the accuracy and reliability of the safety data…"

Nevertheless, we can not ignore the information we have received to date from Edison related to its PBR. The Commission approved significant PBR rewards to Edison for years, amounting to tens of millions of dollars, before the Commission became aware of the widespread misconduct that was apparently occurring, among both staff level employees and supervisors.

Our CPSD staff is continuing to investigate Edison's misconduct, and have yet to issue their findings. If CPSD's investigation concludes that an independent investigation of the service quality incentives of other utilities including SDG&E is warranted, the Commission needs to preserve the authority to recover the service quality rewards paid out to SDG&E should the results of an SDG&E investigation reveal that such rewards were improperly paid out to SDG&E.

Therefore, any rewards or penalties we approve in this resolution should be recorded in SDG&E's gas and electric Reward and Penalties Balancing accounts and are subject to refund in the event that a future SDG&E investigation determines were ill gotten.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

All parties in the proceeding have stipulated to waive the 30-day waiting period required by PU Code 311 (g)(1) and the opportunity to file comments on the draft resolution. Accordingly, this matter will be placed on the Commission's agenda directly for prompt action.

FINDINGS

1. Pursuant to D.99-05-030, SDG&E filed AL 1583-E/1444-G on April 1, 2004, reporting its PBR earnings sharing and performance indicator results for the subject year 2003.

2. SDG&E filed AL 1583-E-A/1444-G-A on April 29, 2005 to revise the safety results. This revision did not impact SDG&E's requested PBR incentive reward.

3. For 2003, SDG&E achieved an electric distribution and gas department weighted ROR of 6.45%. Its weighted electric distribution and gas department authorized ROR was 8.77%. No ratepayer revenue sharing results for 2003 under SDG&E's PBR mechanism.

4. The following 2003 rewards and penalties should be approved:

ELECTRIC DEPARTMENT

Performance Rewards/(Penalties)	
Employee safety	$2,190,000
Customer Satisfaction	492,750
System Reliability	
SAIDI	(785,000)
SAIFI	3,750,000
MAIFI	1,000,000
Call Center Responsiveness	445,300
Total Electric Department	7,093,050

GAS DEPARTMENT

Performance Rewards	
Employee safety	$ 810,000
Customer Satisfaction	182,250
Call Center Responsiveness	164,700
Total Gas Department	1,156,950
Total Net Performance Rewards	**8,250,000**

5. SDG&E's electric shareholder net reward shall be recorded in the electric Rewards and Penalties Memorandum Account (RPMA). SDG&E's gas shareholder reward shall be recorded in the gas RPMA.

6. We should approve SDG&E's 2003 report PBR reports, with an effective date of today.

7. These rewards are subject to refund in the event that the current investigation by the Commission's Consumer Protection and Safety Division (CPSD) concludes that a broader investigation of service quality incentives including those under SDG&E 's PBR is warranted.

THEREFORE IT IS ORDERED THAT:

1. A PBR reward of $8.25 million for SDG&E is approved for specified service quality performance areas.

2. This reward amount is subject to refund in the event that the current investigation by the Commission's Consumer Protection and Safety Division (CPSD) concludes that a broader investigation of service quality incentives including those under SDG&E 's PBR is warranted.

3. SDG&E is directed to record the electric department net reward of $7,093, 050 in the electric Rewards and Penalties Balancing Account (RPBA) and the gas department net reward of $1,156,950 in the in the gas RPBA.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on October 27, 2005, the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director